Economic Development Strategic Plan

The City of Grants Pass and Josephine County

September 2016

Prepared for:

The City of Grants Pass and Josephine County

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Acknowledgments

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ECONorthwest prepared this report for the City of Grants Pass and Josephine County. It received substantial assistance from BDS Planning and Urban Design, IO.INC, Pat Davis Design Group, and Richard Haynes.

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1 Introduction

This Strategic Plan sets forth actions the City of Grants Pass and Josephine County will take to support local economic development. It is a *joint* City-County strategy. Thus, the emphasis is on collaboration—the most important outcome to City, County, and community members that participated in the production of the Plan.

Our Vision of the Future Economy

The City of Grants Pass and Josephine County have a robust, diverse, and resilient economy that provides a high quality of life for residents. The City and County work collaboratively to carry this vision forward.

Organization of this Plan

This strategic plan begins in this chapter (Chapter 1) with the vision that guides this plan. The *vision* is a desired outcome—what the strategic plan should help achieve. Chapter 2 provides an overview of current conditions affecting economic development in the City and County.

Chapter 3 is the heart of the Strategic Plan. It describes *what* goals the City and County would like to achieve over the next five years, and *how* the City and County plan to achieve and measure progress on these goals.

Supporting these decisions about goals and actions are several appendices that provide greater detail on the research and process that led to the plan.

2 Opportunities and Challenges

The situational assessment appendix provides detail on national, state, and local trends that impact local economic development. This section summarizes their implications for this Strategic Plan.

Some things are part of the local DNA. You can't change them; you have to work with them. Location is not something the City or County can change. On the one hand, that means they have beautiful natural amenities, a relatively mild climate, ample outdoor recreation, and access to the main Interstate Highway on the west coast. But their inland location, with no ports and rugged terrain, means they did not develop into major urban centers. Major urban centers have huge advantages for attracting and retaining all types of businesses. [1] This trend suggests that the City and County should focus on "growing their own."

The City and County have complementary assets. For a city of its size and location, Grants Pass is in relatively good shape for continued economic development. Grants Pass has a good industrial base, land for new development, and processes in place to facilitate this development. The Urban Renewal Agency will probably fund the provision of infrastructure on developable industrial land. Links with SOREDI will help the City find tenants for these parcels. And, the City has a permitting and entitlement process that stakeholders say is efficient and fair.[2]

The County has a bountiful supply of natural resources. On the demand side, these natural resources support economic development by attracting residents and tourists who will spend money on local goods and services. On the supply side, these assets provide businesses with labor (by attracting households) and materials.

Collaboration and cooperation are the keys to success. Grants Pass and Josephine County have complementary building blocks for economic development success. Thus, it makes sense for the two jurisdictions to work on economic development *in partnership*. The County and City do not have a joint economic development organization, so forming a joint City-County Committee to implement the plan is the first—and most important—step in this plan.

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[1] "Between 2010 and 2014 America's population grew by 3.1%; its cities by 3.7%. But the 50 richest cities swelled by 9.2%." The Economist, March 12, 2016, p 25.

[2] Since permitting is by nature regulatory and a process, it is in all cities almost always a source of complaints by property owners and developers. Having a system that is not identified as a major obstacle is having a relatively good system.

Subsequent actions in the Strategy should focus on what businesses care about. Historically, economic development policies in metropolitan areas focused on attracting specific businesses or industries. These policies do not work well for smaller jurisdictions. Smaller jurisdictions lack many of the economic and competitive advantages of larger ones, and the capacity to provide large incentives to attract new businesses. Even when jurisdictions can muster incentives, they do not always work: when these incentives dry up, companies that do not enjoy other comparative advantages from that location will leave.

Local economic development research shows that successful policies improve things that are valuable to a wide range of businesses and industries. These are things that businesses need to produce goods and services for their customers—they are "factors of production." Improving conditions for businesses in general will facilitate the growth of new and existing businesses and the attraction of new businesses that value the unique assets of Grants Pass and Josephine County.

Actions should complement current projects that work on similar challenges. The City created an Urban Renewal Agency that will use tax increment financing to address several challenges and opportunities related to economic development. This Strategy seeks to complement such efforts, not to duplicate them. Thus, some issues identified in the research and stakeholder engagement for this project (e.g., City industrial infrastructure, downtown development) do not appear in this plan because the Urban Renewal Agency will address them.

Actions should address specific structural challenges that prevent economic development. For example, Josephine County cannot afford to provide many of the facilities and services that county governments in Oregon normally provide, such as criminal justice. The limited budget for criminal justice makes it hard to attract and retain businesses outside of incorporated areas. Without funding to provide this service, economic development efforts may not be successful. Therefore, this Strategy does deal directly with government funding challenges.

3 What We Will Do

This Strategy is a joint effort of the City and County. Although some actions are specific to one jurisdiction, all actions will impact both. The ability of the City and County to collaborate on the implementation of this Strategy will determine its success.

The City and County do not have a joint economic development organization to facilitate this collaboration. The key and first step for realizing the vision of the Grants Pass / Josephine County Economic Development Strategy is for the City and County to form a *Collaborative Economic Development Committee* (CEDC).

Since the creation and operation of the CEDC is the foundation for subsequent economic development activities, this chapter is organized around the CEDC. It begins with the creation and operation of the CEDC, and concludes with actions the CEDC will pursue.

Create and support the activities of a Collaborative Economic Development Committee

Purpose of the CEDC

The CEDC will be responsible for advising on and monitoring the implementation of all other economic development actions in this Strategy. Its first task is to promote cooperation (of the City, County, other public agencies and non-governmental organizations, the private sector, and other community groups and areas) in getting to agreement on how the actions in this Strategy should be implemented. Its second task is to monitor the implementation of those actions.

The Committee is *advisory* to the City Council and the County Commission. It makes recommendations about how to implement the Strategy's suggested actions based on its investigations. The intent is that the Committee expand the outreach and coordination to create implementation recommendations that have broad community support, thus facilitating agreement between the City Council and County Commission on the economic development actions they will endorse.

Creating the CEDC

Fundamental to the success of the Committee will be its composition, charter, and effectiveness in early meetings. City and County staff will work to create the Committee following these guidelines. The Committee should:

1. **Be a joint City/County effort.** The Committee should be jointly appointed by the City Council and County Commission, report to both bodies, and be supported by both City and County economic development staffers.
2. **Be large enough to be widely representative, but small enough to be nimble.** Nine to fifteen members is probably the right size. Too few members would limit the Committee's community representation and influence; too many makes getting consistent attendance a problem.
3. **Include both City and County elected officials.** Both the City Council and County Commission should each have one representative on the Committee.
4. **Represent key community organizations and work areas in the Economic Development Strategy.** Such organizations would include those with a direct interest in and responsibility for economic and business development (e.g., SOREDI, the Grants Pass Chamber of Commerce, and the Illinois Valley Community Development Organization, Business Oregon), as well as those whose primary missions have significant impacts on economic development (e.g., Rogue Community College and the Josephine County library). A matrix that relates these issues to prospective members is a good tool for populating the Committee.
5. **Have committee members start and end their terms on a rolling basis.** Committee members should commit to a defined term of service. The committee should stagger these terms to maintain some continuity.

Operation and support of the CEDC

Guidelines for the operation of the CEDC follow. The CEDC, once convened, may recommend amending some of these guidelines. The City and the County must approve any such recommendations jointly.

1. **Life of the Collaborative Economic Development Committee**. The CEDC will be a standing committee that reports to City Council and the County Commission. The elected bodies should evaluate the performance of the CEDC on an annual basis to ensure that it is meeting its objectives. The CEDC may establish sub-committees or task forces to work on specific actions of this Plan. Those sub-committees or task forces should have clear objectives and sunset dates.
2. **Leadership**. At its first meeting the CEDC will elect a chairperson and co-chairperson. The duties of the chairperson (or co-chairperson when the chairperson is not available) will be to (1) communicate with staff about

meeting agenda, and (2) facilitate the orderly discussion of and decision-making on agenda items.

3. **Staff Support.** The City and County will each appoint one staff member to jointly support the activities of the CEDC. Those activities include:
   - Communicating with the chairperson about CEDC activities;
   - Coordinating as needed with other staff from the City, County, and other organizations with an interest in economic development;
   - Taking care of all CEDC meeting logistics;
   - Conducting research and preparing materials for those meetings;
   - Taking and distributing meeting notes;
   - Informing City and County elected officials on CEDC activities; and
   - Maintaining a website that communicates CEDC activities to the public.

   The City and County will approve an appropriate allocation of staff time to fulfill these duties. Staff may add tasks as they deem appropriate, provided they stay within their allocated time budgets; additions that add significantly to staff time should be approved by the appropriate staff managers or elected officials.

4. **Consultant Facilitation Support.** The City and County should retain a consultant to facilitate CEDC meetings for the first six months to one-year. A trained facilitator can ensure that the Committee's early meetings, which are critical to the success of this Plan, are a success.

5. **Work Plan.** The CEDC should adopt a one-year work plan as its first activity. That work plan should provide details (responsible party, budget and funding, timelines, benchmarks, reporting) for the actions it will undertake in the first year. The work plan should be a living document that the CEDC may vote to amend as the year progresses.

6. **Process for Discussion and Decision-making.** The Committee should operate with an agreed-upon set of ground rules. Key rules include active participation; regular attendance; consensus decisions; and a positive, respectful, and forward-moving meeting format. More details are suggested in an appendix to this Strategy.

7. **Meetings**. The CEDC should have monthly meetings with clear agendas that begin with progress updates and conclude with action items. All CEDC members should attend every meeting. The CEDC should not allow substitutions. The CEDC should ensure that all members have an

opportunity to contribute both during the meeting (e.g., progress update) and between meetings (e.g., action item).

Clarify and get agreement on the details of key actions

This section describes the actions that the CEDC will pursue. Some actions are relatively straightforward. The actions are organized into three sections that align with factors of production:

- Services
- Infrastructure
- Workforce Development and Entrepreneurship

The Strategy explains *what* each action is but, unlike a typical economic development strategy, does not go into details on *who* completes the action or *how* it gets done. Development of these implementation details requires consensus among members of the organizations responsible for implementation. The CEDC will be the implementation organization for this Strategy. Its establishment is the first action item for this Strategy, thus the CEDC will need to work through details of subsequent actions as it progresses.

The CEDC cannot undertake all actions alone and at once. It will need to involve other members of the community in sub-committees, and to sequence its actions to manage workflow.

Services

Update the County's land-use permitting process

Stakeholders in Josephine County identified a need to improve and streamline the permitting and regulatory processes from "concept to shovel." Of 42 businesses that expanded or relocated in 2014, 26 percent identified County planning requirements and timing as a challenge for expansion or relocation.

The CEDC will provide advice to the County's Community and Economic Development Director about how to streamline the land permitting and regulatory process, and will serve as a liaison to business community on that topic. The result should be a single, consolidated checklist of things a business must do to complete a permit or land-use application. The checklist should include all supporting documents (e.g., forms specific to the inquiry) and a single point of contact for assistance.

Continue to strengthen the relationship with SOREDI as the pipeline for identifying and attracting larger businesses looking to locate in Josephine County

The nonprofit SOREDI provides economic development services to 13 cities in Josephine and Jackson Counties and to the Counties themselves. It is often the first stop for businesses looking to locate in southern Oregon, and has the potential to be a strong pipeline for identifying and attracting businesses to Josephine County. Better coordination between SOREDI and the City and County will improve their abilities to leverage this opportunity. The City and County will each designate a staff person to be the point-of-contact for SOREDI. They will hold regular meetings with their SOREDI counterpart to discuss existing inquiries and actions that they and SOREDI can take to improve the number of successful leads. They will update the CEDC on their meetings with SOREDI. They may recommend a list of action items to the CEDC, which the CEDC should then include on its next meeting agenda.

Design and implement a community conversation about desired services and how to fund them

The County cannot afford to provide critical public services, notably criminal justice, at a typical level. Although some of these services are not direct factors of production, they are nonetheless fundamental to economic development. For example, businesses require criminal justice services to ensure their property and employees are safe from harm. The County has tried unsuccessfully to pass levies to fund the provision of services. There is a disconnection between what the County needs to grow its economy and what residents are willing to pay for.

The CEDC will work with the County to implement a community conversation about desired services and how to fund them. This conversation should start broadly: What aspects of quality of life matter most to residents? How do County services support quality of life? It should then move to the specific: How can the County fund these services?

Develop information and materials to ensure the City and County are able to respond to business inquiries with a unified message and up-to-date information

Businesses trying to start-up, relocate, or grow need information: accurate information, not marketing exaggerations. Information is a factor of production, and it can be costly to collect and evaluate. Local governments can reduce this business cost by providing thorough, relevant, and accurate information quickly.

There are several entities in the County that businesses might go to for such information. Each organization should deliver a consistent message and packet of information materials in response to business inquiries.

The CEDC will work with those entities to compile a packet of information that all entities can distribute. One staff member should have the responsibility for regularly updating this information online.

Infrastructure

Assist with the planning, funding, and development of fiber infrastructure

High-speed Internet is necessary for business: its how most businesses access, transmit, and store information. Without high-speed Internet, most businesses cannot function. The absence of high-speed Internet infrastructure in many areas of the County is an impediment to their economic development.

The County's rural development patterns are an impediment to private investment in fiber infrastructure, so the public sector will need to make the initial investment. The first step is for the CEDC to identify what "middle-mile" infrastructure—the connections at major public institutions like schools and libraries—exists to provide high-speed access to anchor institutions. It should start by identifying gaps in that middle-mile network, and applying for government grants to fund their completion.

The second step is for the CEDC to identify and evaluate funding options for the "last-mile" infrastructure—the connections that enable businesses and households to access high-speed Internet. Some smaller communities have found that private firms were willing to complete the last-mile infrastructure once the middle-mile infrastructure was complete. If conditions are not yet ripe for private investment, the CEDC may work with the City and County to explore both federal and State grant opportunities, as well as the feasibility of starting a public utility (e.g., MINET, which serves Independence and Monmouth, Oregon).

Invest in infrastructure at the Grants Pass Airport

The Grants Pass Airport, located near Merlin, is one of two public airports in Josephine County. It serves many local traded sector firms, notably Dutch Bros. To both maintain current clients and attract new ones, the airport needs infrastructure upgrades. The CEDC will work with Josephine County Airports to develop and implement an infrastructure funding plan for the Grants Pass Airport.

Workforce Development and Entrepreneurship

Convene a task force to coordinate education and workforce development programs and fully engage the private sector

Labor is the single most important cost factor for most businesses. Developing a robust labor force requires high-quality education and training as well as systems to coordinate resources. Research conducted for this Strategy indicates that both the education and training resources in the County are sufficient. The challenge is that they are not working closely both with each other and with businesses.

The lack of coordination is a significant impediment to economic development. Businesses suffer because there is no feedback loop to ensure that programs provide the right type of training. Residents suffer because they cannot easily find and access training resources.

The CEDC will convene a task force to coordinate workforce education and training programs in the County. This task force should include representatives from Worksource Oregon, the Rogue Workforce Partnership, the Josephine County Library, Rogue Community College, the school districts, the Chamber of Commerce, and local businesses. Its first objective will be to develop a living database of resources and a process for updating the database. It may identify secondary objectives for CEDC consideration.

Develop a feasible concept for a business incubator, makerspace, and/or public market

Research and stakeholder meetings for this Strategy suggest the potential value of public investment in a business incubator, makerspace, or public market. Among the potential advantages for local economic development: develops entrepreneurship, addresses the recommendation to “grow-your-own,” and could further develop potentially important industry sectors (value-add agriculture, cannabis, small-scale manufacturing, and tourism).

The CEDC will convene a sub-committee to investigate opportunities for a business incubator, makerspace, and/or public market. This committee should include representatives from the Chamber of Commerce, Rogue Community College, and industries that might participate in such a project.

It may be the case that only one of these projects makes sense. Or, as they are complementary, it may be the case that the CEDC recommends development of a phased project with multiple components. ECONorthwest provided the City and County with sample scopes of work for this effort.

Appendices

The appendices are where we house the detailed analyses that support the strategic plan. They include:

- Appendix A: Process Summary
- Appendix B: Situational Assessment
- Appendix C: Detailed Sector Analyses
- Appendix D: Committee Ground Rules

Appendix A: Process Summary

Stakeholder and community engagement was a critical component of Plan development. Over the course of the project, the consultant team traveled to Grants Pass on three occasions to hold focus groups, stakeholder charrettes, community open houses, and one-on-one interviews. This appendix summarizes feedback from those events.

Appendix B: Situational Assessment

A strategic plan should respond to the realities of existing conditions and the possibilities and likelihoods of future conditions. A *situational assessment* provides information about past, current, and potential and likely future conditions. It sets the stage for a strategic plan that addresses current and potential problems and opportunities.

A situational assessment looks at two specific aspects of economic development. First, it looks at direct measures of economic development conditions at the national, state, and local level. Think of these as the *outputs* of economic activity. Second, it looks at conditions that influence economic development, which are typically *inputs* that facilitate economic activity.

What are these inputs? They are things that matter to businesses—things that influence decisions businesses make about the type and amount of economic activity they will pursue. Economists call these things *factors of production*.

The main factors of production (the things businesses need to operate) are:

- Land and built space
- Infrastructure and services
- Workforce (labor)
- Entrepreneurship
- Supplies (materials)
- Access to Markets
- Business Clusters

This chapter is organized as follows:

- **Context for local economic development** summarizes national and state trends that set the stage for the description of local economic development conditions.
- **Economic development conditions in Grants Pass and Josephine County** provides an overview of direct measures of economic development in the study area.
- **Conditions that impact economic development** describes existing conditions, future conditions, and opportunities in Grants Pass and Josephine County for key factors of production.

Context for Local Economic Development

Economic development in Josephine County will occur in the context of long-run national trends and long- and short-run state trends.

National Trends

The U.S. will see continued economic growth, which will improve workforce conditions. Analysis from the Congressional Budget Office (CBO) predicts moderate GDP growth: 3.1% in 2016, 3.7% in 2017, and 2.2% in both 2018 and 2019. Increases in consumer spending, business investment, and residential investment are expected to drive this growth. Beyond 2019, CBO predicts that output will increase by 2.1% per year, higher than 2008-2014 growth, but lower than growth in the 1980s, 1990s, and early 2000s, mainly due to slower labor force growth.

Increases in output will contribute better workforce conditions. Growth in hourly compensation will increase labor force participation, slowing its longer-term decline.[3] At the same time, a higher percentage of the labor force will find employment, leading to a decrease in the unemployment rate. The CBO projects that the unemployment rate will fall to 5.0% by the fourth quarter of 2017, and remain relatively steady after that. It may increase on the margin to 5.25% from 2020-2025.[4]

The U.S. is increasing productivity. Productivity, measured by output per hour of labor input, increased in most sectors between 2000 and 2010, peaking in 2000 and 2007. The recession interrupted productivity increases. After the recession many industries had large productivity increases (2009 to 2010). Industries with the fastest productivity growth were Information Technology-related industries. These include wireless telecommunications carriers, computer and peripheral equipment manufacturing, electronics and appliance stores, and commercial equipment manufacturing wholesalers.[5]

Federal budgets will need to pay increasing social security costs. The Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds estimates that the number of Social Security recipients will grow from 59 million in 2014 to over 90 million in 2035, a 53% increase. Lower birth rates for replacement generations mean that the number of covered workers will probably increase only about 15% over the same time period

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[3] Congressional Budget Office. An Update to the Budget and Economic Outlook: 2015-2025. August 2015. https://www.cbo.gov/publication/50724

[4] Congressional Budget Office. An Update to the Budget and Economic Outlook: 2015-2025. August 2015. https://www.cbo.gov/publication/50724

[5] Brill, Michael R. and Samuel T. Rowe, "Industry Labor Productivity Trends from 2000 to 2010." Bureau of Labor Statistics, *Spotlight on Statistics*, March 2013.

(compared to the 53% increase in retirees), from 165 million to almost 190 million in 2035. Thus, the number of Social Security beneficiaries per 100 covered workers will increase from 36 in 2014 to 58 in 2035, driving up the percent of the federal budget dedicated to Social Security and Medicare.[6]

Many baby boomers are working full-time after qualifying for social security benefits. The National Institute of Aging reports that an increasing proportion of people in their early- to mid-50s expect to work full-time after age 65. In 2004, about 40% of these workers expected to work full-time after age 65, compared with about 30% in 1992.[7] This trend can be seen in Oregon, where the share of workers 65 years and older grew from 2.9% of the workforce in 2000 to 4.1% of the workforce in 2010, an increase of 41%. Over the same 10-year period, workers 45 to 64 years of age increased by 15%.[8]

The U.S. needs replacement workers. The need for workers to replace retiring baby boomers will outpace job growth. According to the Bureau of Labor Statistics, there will be 50.6 million total job openings over the 2012-2022 period, over two-thirds from replacement needs. Almost two-thirds of job openings are in occupations that do not require postsecondary education (e.g., retail sales person, food preparation workers, and home care aides).[9]

The fastest growing occupations will require an academic degree. Although about two-thirds of new jobs added by 2022 will not require an academic degree, the majority of the *fastest growing* occupations will require a degree and, on average, they will yield higher incomes. Occupations requiring an academic degree likely to grow the fastest are: industrial-organizational psychologists, interpreters and translators, diagnostic medical sonographers, occupational therapy assistants, genetic counselors, physical therapist assistants, and physician assistants.

The relationship between natural resources and the economy has changed. Once, natural resources were a direct source of economic activity; now, they increasingly play a more indirect role in economic development. Economic activity from natural resource extraction is a smaller share of total activity. These resources are now more important to quality of life for local communities, an

[6] The Board of Trustees, Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds, 2015, *The 2015 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds*, May 13, 2011.

[7] "The Health and Retirement Study," 2007, National Institute of Aging, National Institutes of Health, U.S. Department of Health and Human Services.

[8] Analysis of 2000 Decennial Census data and 2010 U.S. Census American Community Survey, 1-Year Estimates for the table Sex by Age by Employment Status for the Population 16 Years and Over

[9] "Occupational Employment Projections to 2012-2022," Bureau of Labor Statistics, December 2013.

important factor in economic development. Increases in population and household income have increased demands for outdoor recreation, scenic vistas, clean water, and other resource-related amenities. Such amenities contribute to a region's quality of life and play an important role in attracting both households and firms.[10]

Demand and prices for energy will increase. Despite increases in energy efficiency and decreases in demand for energy among some industries, the Energy Information Administration expects demand for energy to increase over the 2013 to 2040 period. Increases in population and economic activity, particularly among industrial and other commercial users, will drive growth in energy consumption. Residential use may decline slightly. Higher prices will accompany increased demand.[11]

As energy prices increase over the planning period, transportation energy consumption will decrease. Higher energy prices may decrease willingness to commute long distances,[12] but fuel efficiency gains for vehicles may partially offset this impact. Moreover, continued improvements in communication technology mean more efficient travel from system management, and increasing alternatives to physical travel. The U.S. is expected to increase total vehicle miles traveled through 2040.[13]

Companies will move to where labor costs are lower. Labor and transportation costs are primary determinants of globalization. When a wage gap between two areas is larger than the additional costs of transporting goods, companies are more likely to shift operations to an area with lower labor costs. Conversely, when transportation costs increase, companies may have incentive to relocate to be closer to suppliers or consumers.

The impact of declining fuel costs on business mobility occurs incrementally over time, and is difficult to measure in the short-term. If transportation costs decrease over the planning period, businesses may not make the decision to relocate (based on transportation costs) because the benefits of being closer to suppliers and markets may not exceed the costs of relocation.

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[10] For a more thorough discussion of relevant research, see, for example, Power, T.M. and R.N. Barrett. 2001. *Post-Cowboy Economics: Pay and Prosperity in the New American West*. Island Press, and Kim, K.-K., D.W. Marcouiller, and S.C. Deller. 2005. "Natural Amenities and Rural Development: Understanding Spatial and Distributional Attributes." *Growth and Change* 36 (2): 273-297.

[11] Energy Information Administration, 2015, *Annual Energy Outlook 2015 with Projections to 2040*, U.S. Department of Energy, April 2015.

[12] Energy Information Administration, 2015, *Annual Energy Outlook 2015 with Projections to 2040 Early Release Overview*, U.S. Department of Energy, April 2015.

[13] Energy Information Administration, 2015, *Annual Energy Outlook 2015 with Projections to 2040 Early Release Overview*, U.S. Department of Energy, April 2015.

People will move to more temperate climates as climate change occurs. There is a consensus among the scientific community that global climate change is occurring and will have important ecological, social, and economic consequences over the next few decades and beyond.[14] Extensive research shows that Oregon and other western states already have experienced noticeable changes in climate and predicts that more change will occur in the future.[15]

In the Pacific Northwest, climate change is likely to (1) increase average annual temperatures, (2) increase the number and duration of heat waves, (3) increase the amount of precipitation falling as rain during the year, (4) increase the intensity of rainfall events, and (5) increase sea level. These changes are also likely to reduce winter snowpack and shift the timing of spring runoff to earlier in the year.[16]

But the affects of climate change on local economic development are relative, and may benefit Oregon. California and Arizona will get hotter and drier. Oregon is likely to look good to many businesses and households in comparison.

State Trends

State, regional, and local trends will also affect economic development in the City and County over the next 20 years.

Long-term Trends

Oregon will see more in-migration from other states. Oregon will continue to experience in-migration (more people moving *to* Oregon than *from* Oregon) from other states, especially California and Washington. From 1990 to 2013, Oregon's

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[14] Karl, T.R., J.M. Melillo, and T.C. Peterson, eds. 2009. *Global Climate Change Impacts in the United States.* U.S. Global Change Research Program. June. Retrieved June 16, 2009, from www.globalchange.gov/usimpacts; and Pachauri, R.K. and A. Reisinger, eds. 2007. *Climate Change 2007: Synthesis Report. Contribution of Working Groups I, II, and III to the Fourth Assessment Report of the Intergovernmental Panel on Climate Change.*

[15] Doppelt, B., R. Hamilton, C. Deacon Williams, et al. 2009. *Preparing for Climate Change in the Upper Willamette River Basin of Western Oregon.* Climate Leadership Initiative, Institute for a Sustainable Environment, University of Oregon. March. and Doppelt, B., R. Hamilton, C. Deacon Williams, et al. 2009. *Preparing for Climate Change in the Rogue River Basin of Southwest Oregon.* Climate Leadership Initiative, Institute for a Sustainable Environment, University of Oregon. March.

[16] Mote, P., E. Salathe, V. Duliere, and E. Jump. 2008. *Scenarios of Future Climate for the Pacific Northwest.* Climate Impacts Group, University of Washington. March.; Littell, J.S., M. McGuire Elsner, L.C. Whitely Binder, and A.K. Snover (eds). 2009. "The Washington Climate Change Impacts Assessment: Evaluating Washington's Future in a Changing Climate - Executive Summary." *In The Washington Climate Change Impacts Assessment: Evaluating Washington's Future in a Changing Climate,* Climate Impacts Group, University of Washington; Madsen, T. and E. Figdor. 2007. *When it Rains, it Pours: Global Warming and the Rising Frequency of Extreme Precipitation in the United States.* Environment America Research & Policy Center and Frontier Group.; and Mote, P.W. 2006. "Climate-driven variability and trends in mountain snowpack in western North America." *Journal of Climate* 19(23): 6209-6220.

population increased by almost 1.1 million, 65% of whom were people moving into Oregon (net migration). The average annual increase in population from net migration over the same time period was just over 29,000. Oregon's net migration was highest during the early- to mid-1990s, peaking at just over 60,000 in 1991. Oregon hasn't experienced negative net migration since the early- to mid-1980s.[17]

Oregon nonfarm employment is likely to increase. The OEA expects total nonfarm employment to increase from 1.7 million in 2013 to just over 2 million in 2022, an increase of 340,000 jobs. The industries with the largest growth will be Professional and Business Services, Leisure and Hospitality, Health Services, and Retail Trade, accounting for 61% of forecast growth.[18]

Oregon increasingly depends on exports. Oregon's exports totaled $19.4 billion in 2008 – a near doubling of the value of exports in 2000. Exports reached $21 billion in 2014, and are forecast to remain at that level in 2015. Oregon exports primarily to countries along the Pacific Rim, with Canada, China, Japan, Korea, and Malaysia as top destinations. Oregon's largest exports are tied to high-tech, mining, and agricultural products.[19]

Oregon continues to see shifts in manufacturing, from natural resource-based to high-tech and other manufacturing industries. Since the 1970s, resource-extraction related industries have declined as a share of total economic activity. An example of this transition is the shift within Oregon's manufacturing sector, in which employment declined in the Lumber & Wood Products industry while concurrently increasing in other manufacturing industries, such as high-technology manufacturing (Industrial Machinery, Electronic Equipment, and Instruments), Transportation Equipment manufacturing, and Printing and Publishing.[20]

Mainly because of recent wage growth, Oregon wages are at their highest point relative to other states since the recession in the early 1980s. In 2014, average annual wage was $46,515, and median household income was $51,075.[21]

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[17] Portland State University Population Research Center. 2013 Annual Population Report. April 2014. http://www.pdx.edu/prc/annual-oregon-population-report

[18] Office of Economic Analysis. Oregon Economic and Revenue Forecast, September 2015. Vol. XXXV, No. 3, page 48.

[19] Oregon Office of Economic Analysis. Oregon Exports 2015: Destination Countries. August 2015. http://oregoneconomicanalysis.com/2015/08/13/oregon-exports-2015-destination-countries/

[20] Although Oregon's economy has diversified since the 1970's, natural resource-based manufacturing accounts for nearly 40% of employment in manufacturing in Oregon in 2014, with the most employment in Wood Product and Food manufacturing (QCEW).

[21] Oregon Quarterly Census of Employment and Wages, 2014. https://www.qualityinfo.org; US Census American Community Survey 1-Year Estimates, 2014, Table B19013.

The OEA forecasts that total personal income (all classes of income, minus Social Security contributions, adjusted for inflation) in Oregon will increase 63%, from $157 billion in 2013 to be $256 billion in 2022. It forecasts per capita income will increase by 47% over the same time period, from $40,000 in 2013 to $59,000 in 2022 (in nominal dollars).[22]

Small businesses support a large share of employment in Oregon. While small businesses (those with 100 or fewer employees) played a large part in Oregon's expansion between 2003 and 2007, they also suffered disproportionately in the recession and its aftermath (64% of the net jobs lost between 2008 and 2010 were from small businesses).

In 2012, small businesses accounted for 96% of all businesses and 41% of all private-sector employment in Oregon. Said differently, most businesses in Oregon are small (in fact, 77% of all businesses have fewer than 10 employees), but the largest share of Oregon's workers work for large businesses.

The average annualized payroll per employee at small businesses was $34,248 in 2012, which is considerably less than that at large businesses ($48,938) and the statewide average for all businesses ($46,669).[23] This trend may explain, in part, why Oregon wages are relatively low.

Short-term Trends

The Oregon economy is currently "at full throttle growth." Over the past year, Oregon added over 50,000 jobs, a 3.4% growth rate. The professional and business services, health services, and leisure and hospitality industries have accounted for almost half of total growth in the State. [24] Wage increases have accompanied employment growth.

Oregon has not, however, completely recovered from the recession. It has a large labor-force participation gap (the difference between the percent of the population either employed or looking for work now and the same percentage when "operating at full strength").[25] The OEA expects economic growth in Oregon to remain at the current pace through 2017, but slow as more baby boomers retire.[26]

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[22] Office of Economic Analysis. Oregon Economic and Revenue Forecast, September 2015. Vol. XXXV, No. 3, page 47.

[23] U.S Census Bureau, 2012 Statistics of U.S. Businesses, Annual Data, Enterprise Employment Size, U.S and States. http://www.census.gov/econ/susb/

[24] Office of Economic Analysis. Oregon Economic and Revenue Forecast, September 2015. Vol. XXXV, No. 3. , page 8 http://www.oregon.gov/DAS/OEA/docs/economic/forecast0915.pdf

[25] Office of Economic Analysis. Oregon Economic and Revenue Forecast, September 2015. Vol. XXXV, No. 3. , page 8 http://www.oregon.gov/DAS/OEA/docs/economic/forecast0915.pdf

The housing market is continuing to recover. Oregon is seeing high household formation rates, which is good for the housing market. But the supply of housing (both rental and ownership) has not kept pace with demand, causing home prices and rents to rise. The OEA expects construction to increase over the next three years, relieving some of this pressure.[27]

The Oregon Index of Leading Indicators has grown since 2012. The OEA uses this index to monitor strength of employment and business performance. The leading indicators showing improvement are: volume of airfreight, initial claims for unemployment, wage and salary withholdings, and incorporations of new companies. Negative trends among the Index of Leading Indicators include: flat housing permits, decreasing industrial production, and the appreciating Oregon Dollar Index.[28]

Oregon's economic health is dependent on the export market. The value of Oregon exports in 2014 was $21 billion. Oregon's main importers are: China (20% of total Oregon exports), Canada (15%), Malaysia (12%), Japan (8%), South Korea (6%), and Taiwan (5%).[29] With the appreciation of the American dollar, Oregon's exports have slowed.[30] The economic slowdown across many parts of Asia will continue to affect the Oregon economy. However, the Trans-Pacific Partnership, a bill that would reduce trade barriers if approved, would increase Oregon exports to participating countries (such as Malaysia, Japan, and Canada).

Economic Development Conditions in Grants Pass and Josephine County

Public-sector economic development policy focuses on creating economic prosperity. This chapter describes direct indicators of economic prosperity. For each indicator, the situational assessment compares Josephine County to other counties in the Southwest Oregon Region (Coos, Curry, Douglas, and Jackson counties), the State of Oregon, and the United States. This chapter provides key takeaways; the full tables and details will be available in the completed situational assessment.

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[26] Office of Economic Analysis. Oregon Economic and Revenue Forecast, September 2015. Vol. XXXV, No. 3.

[27] Office of Economic Analysis. Oregon Economic and Revenue Forecast, September 2015. Vol. XXXV, No. 3, page 18.

[28] Office of Economic Analysis. Oregon Economic and Revenue Forecast, September 2015. Vol. XXXV, No. 3, page 15.

[29] United States Census. State Exports from Oregon, 2011-2014. https://www.census.gov/foreign-trade/statistics/state/data/or.html

[30] Office of Economic Analysis. Oregon Economic and Revenue Forecast, September 2015. Vol. XXXV, No. 3, page 7

Output

Real per capita GDP for Grants Pass Metropolitan Statistical Area (MSA) was $22,015 in 2014, which is higher than many southern Oregon counties but lower than its neighbor, Medford; the State; and the U.S. Two factors may explain why Grants Pass MSA has a relatively low output. The first reason is that its population has a larger share of retirees. The second is that educational institutions, which offer stable jobs but do not generate high output, are among the major employers of the region.

Number of Establishments

The number of businesses in Josephine County has increased on par with Jackson County, the State, and the U.S. as a whole. At 1.1 percent, Josephine County's average annual growth in businesses was just behind the U.S. and Oregon from 2001 to 2014. [31]

Population

Josephine County's population was 83,599 in 2014, in the middle of the pack for southern Oregon counties. Until 2000, Josephine County had more population growth than other Southwest Oregon counties, Oregon, and the U.S. In the mid-2000s, population growth slowed. The OEA forecasts that Josephine County's population will grow at a moderate rate of 1.16 percent per year from 2015 to 2030, which aligns with the State as a whole.

The current population is relatively old, compared to the U.S., the State, and other southern Oregon counties. Curry County is the only county in Southwest Oregon to have a larger share of people 65 and older. This aging population will increase demand in health care services and replacement workers.

Employment and Unemployment

Josephine County has a relatively low share of the working-age population that was employed, 41 percent in 2014. In the U.S. as a whole, that share was at 58 percent. Low percentages suggest high percentages of retirees, high unemployment, or both.

In the case of Josephine County, the answer is "both." The previous section indicates that Josephine County has a relatively high share of retirees. Josephine County also has high unemployment. Josephine County's unemployment rate in 2014 was 9.7 percent. Jackson, Douglas, and Coos counties as well as the State (7.0 percent) and the U.S. (6.2 percent) all had lower rates that year.

Income

Josephine County had the lowest per capita income compared to other Southwest Oregon counties, Oregon, and the United States. Josephine County's per capita income was $33,577 in 2014. Oregon's per capita income in 2014 was $41,220. Per capita income in the U.S. was $46,049 in 2014. The other Southwest Oregon counties' per capita income in 2014 were: $37,600 (Jackson County), $36,400 (Coos County), $35,700 (Curry County), and $34,500 (Douglas County).

Income trends derive from the population and employment trends as described in this chapter. Josephine County has an older population and relatively high unemployment. This combination results in a lower per capita income, compared to all other comparison geographies.

Industry Activity

Trade, Transport, and Utilities and *Education and Health* services employed the greatest share of people in Josephine County in 2014. This is not surprising: retail stores are part of the *Trade, Transport, and Utilities* section. In 2009, Wal-Mart and Fred Meyer were the 5th and 12th largest employers in Josephine County, with 470 and 220 employees, respectively. Rogue Community College (919 employees), Three Rivers Hospital (900 employees), Grants Pass School District (670 employees), and Three Rivers School District (645 Employees) were the top four employers in 2009.[32]

Figure 1: Employment by Industry, Josephine County, Total and Difference 2014 and 2001

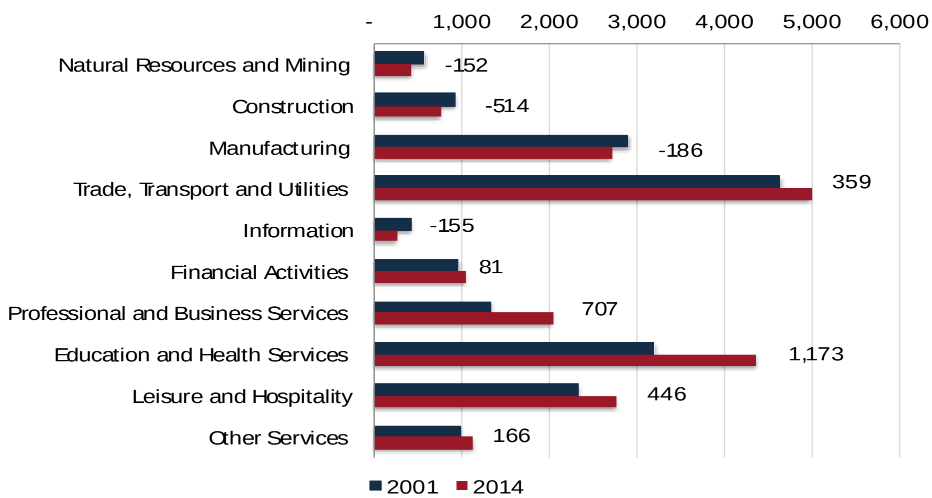
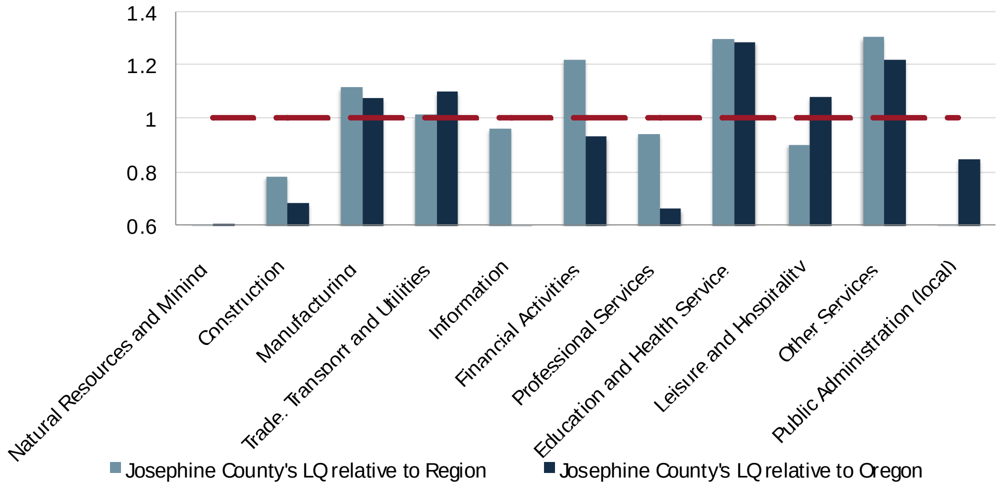


Figure 2 shows Josephine County's location quotients (LQ) compared to the southwest Oregon counties' regional average and to the State. Location quotients

[32] Major Employers in Josephine County. Grants Pass and Josephine County Chamber of Commerce. 2009

are often used to suggest evidence of comparative advantage—for a concentration of an industry to exist in one place, industry must be more productive there than it would be somewhere else. Josephine County has a higher relative concentration of employment in the *Manufacturing*, *Transport and Utilities*, *Financial Activities*, *Education and Health Service*, and *Other* services sectors.

Figure 2: Josephine County Employment Location Quotients Compared with Southwest Oregon Region and Oregon, 2014



Local Conditions that Impact Economic Development

Government has a comparative advantage in creating positive effects on economic development factors for the following factors of production, each of which is addressed below:

- **Labor**: workforce development and education (Section 4.1)
- **Land and Buildings**: the planning and entitlement of land so that it is ready for development (Section 4.2)
- **Infrastructure**: sites have the necessary connections to support buildings and the operations they house (Section 4.3)
- **Services**: the kinds of things that businesses need to support operations and their employees need to support quality of life (Section 4.4).

Labor: Workforce Development and Education

The relative productivity and cost of *labor* is the single most important cost factor for most businesses (especially service businesses). Other things being equal, firms want higher labor productivity—more output per dollar spent on labor—which is a function of both the costs and skill of labor. Businesses that are "footloose" (i.e., not strongly tied to a particular location—for example, call centers) and that are looking to expand will look for locations where they can find the best labor value (a pool of appropriately trained workers and competitive wage rates).

Government can help retain and attract businesses by providing high-quality education and training, and coordinating public and private education and training efforts to ensure a robust and responsive system. Governments may also attempt to attract an educated and skilled labor force through *placemaking*. Such investment in the public realm can make a region more attractive to households and reduce the difficulties and costs to businesses of attracting and retaining labor. The literature of economic theory (and increasingly the empirical literature) is clear that quality of life factors affect people's desire to live in a certain place, and that a perceived high quality of life can offset wages.

Regarding the education of the labor force, the County's performance is on par with similar jurisdictions. Evidence suggests that K-12 public education in the County is about average for the State, and above average for districts with similar characteristics. Regarding higher education, the County does not have a state university or college and is unlikely to get one. It has a community college that is a pathway to four-year and higher degrees, and a technical training provider.

Although institutions in the County produce an educated labor force, focus group participants said that local businesses find it difficult to retain these workers and attract new skilled workers. Relatively low wages and the absence of social opportunities discourage young professionals from continuing to work in the City and County. However, participants were optimistic that the region could leverage its locational advantages and natural amenities to retain and attract skilled employees seeking a high quality of life. Worksource Oregon does have an office in Grants Pass that works on these issues. Actions taken in this plan should complement the efforts by Worksource Oregon.

Land and Buildings

Most businesses require a physical space (e.g., office, warehouse, factory, or storefront) in which to operate, and buildings need land that is properly located, sized, serviced, and priced. Government has a critical role to play in ensuring that this factor of production is of *high quality* and is delivered *efficiently* in a *business-friendly climate.* Government has a primary responsibility for the efficient planning, entitlement, and zoning. In some cases, government also gets involved in supporting brownfield redevelopment, land assembly, land cost write-down, and building improvements.

Four major categories exist: residential, commercial, industrial, and rural. At a high level, the City and County are doing relatively well in terms of the supply of appropriately zoned land. Many cities in Oregon have struggled with state land use policies. Some have been unable to expand urban growth boundaries and believe that they are without the land that would allow them to facilitate efficient and economical business growth. The story in Grants Pass is different. The data suggest that the City has made reasonable estimates of commercial, industrial, and residential land need for 20 and 40 years, and has expanded its Urban Growth Boundary and created Urban Reserves with amounts of land that approximately match estimate needs.

Two challenges face the City and County as they consider this factor of production. The first concerns industrial lands. Although the region has industrial land, this land is not supplied with adequate infrastructure and services. Interviews and planning documents consistently cited the absence of adequate shovel-ready industrial land as one of the most important challenges facing local economic development.

The second challenge relates to rural forestland. Of the 1.04 million acres in Josephine County, the federal government owns 68 percent. This means that State, local government, and private landowners must work with federal partners to design complementary land management strategies.

Infrastructure

Businesses need buildings to operate. Buildings need land. But the land must be served by essential infrastructure. Key infrastructure required for most business includes electricity, water, wastewater, transportation, and telecommunication connections. Quality infrastructure and amenities also help to attract and retain a talented labor pool.

Government can, and is generally expected to, provide most of the local infrastructure to support industrial, commercial, and residential development. Though the private sector usually provides these services on site (e.g., it pays for the pipes, wires, and roads that connect a development to a larger infrastructure network), it usually does not build or maintain the off-site network and facilities. Business cannot grow and add jobs without infrastructure; they recognize government's role in providing it and expect to pay reasonable fees as part of the cost of doing business. Providing necessary and expected infrastructure efficiently and fairly may be the most significant thing that local governments can do to support economic development.

The previous section noted that raw land of suitable size, topography, and location is not a critical problem in the City or County; such land exists. The more critical problem is that the raw land may not be able to be serviced quickly or cheaply. Since businesses need *buildable* sites (ones with essential infrastructure that the City, County, or partner public service districts are supposed to provide), policies related to the provision of infrastructure are likely to be key elements of an economic development strategy.

Funding infrastructure and service improvements in the City and County is a problem for many reasons. First, the City and County tend to rely on State and Federal funding for infrastructure improvements, which limits local government's ability to make those improvements. Second, the community tends to vote against funding for infrastructure of criminal justice improvements, especially older citizens. Third, relatively low property tax rates in the County, while incentivizing businesses to locate in the area, limit funding for necessary infrastructure improvements.

Services

It is typical for cities to increase the services they provide as they grow. Growth in services derives from: (1) an increase in people needing the same services; and (2) a need for services to accommodate different types of people and needs, and to cope with the effects of increased development and density (e.g., services to maintain environmental quality and to reduce nuisances). Some of the services relate directly to the provision of factors of production described above; others address more broad basic safety and quality-of-life issues (e.g., police and emergency services; library and parks).

Businesses use services to a varying degree, but all are necessary. Some they use directly, but infrequently (e.g., police and fire). They require this segment of services to protect against business disruption and loss. Some they may use only indirectly (e.g., libraries or parks), meaning their owners, employees, and families depend on them. This segment is thus equally important to economic development.

Businesses will differ in their support for certain types and amounts of services, but they will generally agree that (1) some public services are important, and (2) they should be provided efficiently. A region that can demonstrate quality services at relatively low cost is demonstrating value, and businesses will consider that value when making decisions to start-up, expand, or relocate.

The situational assessment covers many of these "services" in its discussion of infrastructure. The most important services to discuss in this section are land use and permitting and incentives.

Both *land-use permitting* and *incentives* are two-edged swords. Land-use permitting (and related land-use planning and regulation) exists to protect and enhance public health, safety, and welfare. Building codes, for example, give buyers some assurance that the myriad structural elements they cannot see have been constructed properly; codes about how sewage and stormwater are handled protect public health and safety. Moreover, government usually provides the ongoing protection and service: sewerage and treatment plants, road improvements and maintenance, police and fire. Providing services and facilities requires money, which comes primarily from taxes and fees. Thus, if governments provide incentives by reducing or waiving those taxes and fees, they can be short on money to provide a desired level of service.

Josephine County's tax base is moderate relative to other counties (for example, real market value (RMV) in Multnomah, Lane, and Jackson counties are respectively 12, 5, and 3 times greater than those in Josephine County; Douglas, Coos, and Klamath County have RMVs that are similar; Gilliam, Grant, and Harney counties have RMVs 10 times smaller). But Josephine County has the *lowest* tax rate (relative to RMV) of any county in Oregon.[33] Reducing property tax to attract growth is a gamble and requires some evaluation: Would the growth attracted have come anyway? Will it pay back in jobs and future tax revenues the incentives given? Can the County provide quality services (which also attract growth) with its low tax revenues?

There is little downside of having an *efficient* land-use permitting and regulatory process: what needs to be done should be done as quickly and economically as the desired outcomes allow. Thus, evaluating the efficiency of that process is a typical action found in local economic development plans. The challenge, of course, is finding the right balance between streamlining, the public's desire for involvement and review, and desired land-use outcomes.

Summary

All forecasts for the national and state economies are relatively strong. If the national and state economies perform about as predicted, the general important implications for local government like Grants Pass and Josephine County are straightforward: there will be ample growth for them to capture, but they must facilitate local conditions necessary to do so.

The City and County have complementary building blocks for economic development. For a city of its size and location, Grants Pass is in relatively good shape for continued economic development. Grants Pass has a good industrial base, land for new development, and processes in place to facilitate this development. The Urban Renewal Agency will likely fund the provision of infrastructure on developable industrial land; research conducted for this plan affirms the importance of this action. Links with SOREDI will help the City find tenants for these parcels. And, the City has a permitting and entitlement process that stakeholders say is efficient and fair.[34]

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[33] http://www.oregon.gov/DOR/programs/gov-research/Pages/research-property.aspx Oregon Department of Revenue, *Oregon Property Tax Statistics, Fiscal Year 2014-15*, Exhibit 5, page 7.

[34] Since permitting is by nature regulatory and a process, it is in all cities almost always a source of complaints by property owners and developers. Having a system that is not identified as a major obstacle is having a relatively good system.

The County has a bountiful supply of natural resources. On the demand side, these natural resources support economic development by attracting residents and tourists who will spend money on local goods and services. On the supply side, these assets provide businesses with labor (by attracting households) and materials.

Collaboration on economic development efforts will ensure that the City and County leverage their complementary assets to move toward their joint vision for the future.

Appendix C: Informational Analysis of Selected Sectors

This appendix includes detailed analyses of the potential for the forestry industry and cannabis industry in Josephine County. The consultant team produced the forestry industry analysis in response to questions from City Council and County Commissioners about industry potential. The consultant team produced the cannabis industry assessment because it is a new (legal) industry in the County and, as such, very little economic analysis on industry potential is available elsewhere.

Forestry Industry Assessment

Richard Haynes produced this appendix for ECONorthwest for the Grants Pass and Josephine County Economic Development Strategy.

Forest Sector in Jackson and Josephine Counties

Jackson and Josephine counties, like other westside Oregon counties, are heavily forested (2.92 million acres) with a long history of forest management and a forest products industry. This history of forest management reflects shifting objectives of landowners both public and private, changing markets and forest utilization. Each of these will be briefly discussed in the following sections.

Table 1 shows the proportions of forestland by major owner for both Jackson and Josephine counties and for all westside Oregon counties. These counties do differ from other westside counties in both their greater dependence on federally (both USFS and BLM) managed timberlands and reduced presence of State and private timberlands.

Table 1. Forestland by Ownership Category, western Oregon counties

Forestland by owner	Jackson & Josephine	All Westside
National forest (11)	30%	28%
National Park Service (21)	0%	0%
Bureau of Land Management (22)	25%	11%
Fish and Wildlife Service (23)	0%	0%
Department of Defense or Energy (24)	0%	0%
Other federal (25)	0%	0%
State (31)	1%	9%
Local (county, municipal, etc.) (32)	2%	1%
Undifferentiated private (46)	41%	49%

Advocates for broad-scale sustainable forest management have impacted timberland management across Oregon and Washington and have shaped the history of the industry. Starting in the 1930s, advocates promoted sustainable forest management practices and harvest limitations on public timberlands, with three goals of 1) stabilizing stumpage prices to provide an incentive for forest management practices on both public and private timberlands, 2) developing stable forest-based communities as an alternative to earlier "cut and run" practices, and 3) establishing trust arrangements where timber revenues substitute property tax and other revenues.

More recently, advocates for large-scale sustainability have focused on regulations to manage federal forestlands to meet joint ecological and socioeconomic goals. For federal lands, the development and adoption of the US Northwest Forest Plan (NWFP the Plan; USDA and USDI 1993, 1994) was the mechanism used to protect critical habitat for the northern spotted owl and other habitat-protection goals across a vast landscape of 24 million acres (~10 million ha). Past management practices and new goals for recovery of species listed under the US Endangered Species Act have shifted the focus of this plan to forest restoration.

Some critique the trend toward sustainable forest management, blaming job and trust revenue losses in timber-dependent Pacific Northwest communities on the US Northwest Forest Plan. But, several other factors have contributed to the current state of the industry: (1) the timber market is more competitive, and (2) mills are more efficient. Both of these factors have driven down the amount of labor required for the local industry.

Changes in forest management priorities and related factors have influenced timber harvest in aggregate and by key owner group. The differences in ownership patterns are reflected in harvest patterns as shown in a stacked fashion in Figure 1 where public harvests in both counties dominated total harvests until the early 1990s. There are differences between the two counties, with harvests in Jackson County being about twice that of Josephine County and private harvest in Josephine County being relatively small.

Figure 1. Timber harvest by major owner groups, Jackson and Josephine Counties, 1962-2013

Total harvests over this 51-year period declined 4% per year with much of the decline occurring just before and following the implementation of the NWFP (1994) that reduced federal harvests roughly 90 percent. This pattern is typical for all of the western Oregon counties and one difference here is that there has been little response from private landowners to offset some of the harvest reductions.

These harvest reductions both in the long term and in the past two decades have had numerous and widespread economic and social impacts that have shaped forest policy debates and raised questions about the forest sector's contribution to local economic conditions. In those debates, changes to forest sector revenue and employment impacts are often focal points for desired action. Each of these will be reviewed in the following sections and in a final section there are some observations about possible advocacy issues in the context of the forest sector's contributions to economic development.

Forest Sector Revenues

One of the focal issues is the perceived decline in forest timber revenues. For private timberland owners, timber is a capital asset and a large component of the value of timberland. For public landowners, timber revenues represent a return to various treasuries and to three trusts arrangements for most western Oregon counties (Forest Service, BLM, and Oregon Department of Forestry). These revenues in nominal dollars can be summarized as decade averages expressed annually for the past five decades.

Table 2. Annual Decade Average Revenues (millions of dollars) by Major Owner Group

	JACKSON		JOSEPHINE	
	PRIVATE	PUBLIC	PRIVATE	PUBLIC
1962-71	6.2	9.5	0.4	5.1
1972-81	24.8	47.2	2.5	25.0
1982-91	26.9	39.5	2.5	19.7
1992-01	43.7	13.3	14.2	5.5
2002-11	24.8	2.1	6.9	1.2
2011-13	25.3	3.4	8.0	1.0
Average	25.3	19.2	5.8	9.6

Table 2 shows that public revenues peaked in the 1970s, while private revenues peaked in the 1990s as timber markets adjusted to reductions in federal timber harvests (see the 1993 price spike in Figure 2). In spite of planning direction and general guidance provided by forest regulation models, Table 1 shows how difficult it is to provide steady forest based revenues when there are changes in both harvest flows as well as changes in timber (stumpage) prices.

Stumpage prices for public agencies in western Oregon are shown in Figure 2. Prices for publically owned timber were closely aligned until the mid 1990s.[35] At that point, different management regimes on federal timberlands reduced the quality of species and grade mixes offered for sale and increased the use of thinning or patch cutting harvest strategies, which have higher logging costs. Both of these factors increased stumpage prices for federal land. The ODF prices also represent prices received by private landowners selling in the domestic market.

[35] In an economic sense this reflects price arbitrage across similar types (and grades) of stumpage being sold by each public agency.

Figure 2. Stumpage prices for timber sold by public agencies in Western Oregon

Figure 2 illustrates two other underlying economic issues. First, even with some progressive changes in ODF sale practices, prices for ODF timber have average $195 dollars/MBF higher than both the Forest Service and BLM sales[36]. From the perspective of an economist, there appears to be a disincentive (or seen another way a penalty) for adopting harvest restrictions (volume, types of timber offered, and logging systems) imposed as a part of ecosystem management: the federal government has paid an opportunity cost of $195/MBF with the implementation of the NWFP.

The second issue is the role that money illusion plays in developing financial expectations. Ignoring the price spike and looking at nominal ODF stumpage prices only, revenues appear to have peaked in 2005. Revenues adjusted for inflation, however, peaked in 1980 and have been mostly flat for the past 30 years, until the “great recession”. This trend suggests that many stakeholders may be reacting to illusionary expectations for financial returns rather than adjusting expectations for their potential purchasing power. Further, current expectations that stumpage markets are returning to their long-term averages suggests that real revenues will return to the average of the past 30 years.

Employment and the Jobs Debate

Often, timber policy debates are reduced to two dimensions: jobs and some sort of forest condition measure. Such a debate treats the number of forest products (both in the woods and mills) jobs as a proxy for economic prosperity. Parsing out this debate requires an assessment of the timber industry itself and the measurement of jobs.

[36] This sale relation also exists in Western Washington where DNR sales average $234/MBF more than Forest Service sales.

The Timber Industry

Historically, western Oregon had the highest concentration of primary wood product facilities in the US. In 2013 (the latest year data is available), there were 143 active forest products facilities located in Western Oregon. Southwest Oregon (Coos, Curry, Douglas, Jackson, Josephine, and Lane counties) contained the largest proportion of lumber producers (39 percent) and plywood and veneer operations (73 percent). There are seven facilities producing veneer, plywood, or both in Jackson and Josephine counties. There are several portable mills that operate intermittently in the two counties. Most of the products produced by these facilities are consumed within southwest Oregon counties: in 2013, only about 8 percent of timber harvested in southwest Oregon counties was exported out of state (Simmons).

There have been three important changes. First, the number of mills has declined in Oregon, from 553 in 1968 to 188 in 2013 (Simmons). Second, there has been a decline in the diversity of products produced with greater emphasis on softwood lumber production. Third, lumber production per mill has increased with the "new wave" of mills built or rebuilt in the last 30 years. The transition to timber coming from private timberlands accelerated this shift.

While many people dismiss concerns about the decline of the forest products industry, it is difficult to manage forests without addressing this reality. Public land management in the West has depended on an uneasy relation between public agencies and privately-funded industries, one in which resources flowed from public lands to the private sector. There are opportunities to explore a more constructive alliance with these various privately funded enterprises, especially focusing on hazardous fuel management. At the same time, a prosperous forest industry offers markets for private timberland sustaining forested open spaces cherished by many who see forested ecosystems as a set of 'commons' contributing to the sense of openness that distinguishes the West.

Jobs Measurement

Forest policy debates often include statements such as, the direct job multiplier for Oregon is 8.4 jobs per million board feet harvested (Zhou 2015). Using that figure, the combined 2013 harvest for Jackson and Josephine counties should account for 1,380 jobs. But, as shown in table 3, actual employment in the Forest sector in Jackson and Josephine counties was 2,767 suggesting that these counties import logs from neighboring counties. Table 3 suggests that both total employment and the share of employment in the forest sector (the total of both NAICS 321 and 113 industries) have fallen from pre-recession levels. Finally as a caveat, many forestry jobs are transitory. For example, logging crews move from sale to sale across multiple counties.

Table 3. Total and Forest Sector Employment in Jackson and Josephine Counties

	Jackson County NAICS			Josephine County NAICS				
Year	Total Employment	NAICS 321	NAICS 113	Total Employment	NAICS 321	NAICS 113	Forest Sector Jackson	Forest Sector Josephine
2000	73,614.00	4,038.00	586.00	22,370.00	1,473.00	148.00	6%	7%
2001	74,107.00	2,775.00	649.00	22,433.00	935.00	184.00	5%	5%
2002	74,688.00	2,596.00	626.00	21,823.00	885.00	273.00	4%	5%
2003	76,578.00	2,355.00	743.00	22,377.00	683.00	292.00	4%	4%
2004	79,373.00	2,392.00	772.00	23,303.00	649.00	346.00	4%	4%
2005	82,372.00	2,340.00	773.00	24,691.00	715.00	318.00	4%	4%
2006	83,537.00	2,278.00	810.00	25,434.00	744.00	247.00	4%	4%
2007	84,335.00	2,088.00	824.00	25,115.00	696.00	244.00	3%	4%
2008	81,987.00	2,178.00	825.00	24,413.00	574.00	252.00	4%	3%
2009	76,087.00	1,587.00	708.00	22,633.00	402.00	120.00	3%	2%
2010	75,501.00	1,459.00	231.00	22,247.00	424.00	82.00	2%	2%
2011	74,891.00	1,436.00	245.00	22,569.00	460.00	80.00	2%	2%
2012	76,020.00	1,711.00	293.00	22,565.00	491.00	92.00	3%	3%
2013	78,138.00	1,816.00	354.00	22,712.00	490.00	107.00	3%	3%

NAICIS 321 = North American Industry Classification System for lumber and wood products.
NAICIS 113 = North American Industry Classification System for forestry services and logging.

Table 3 illustrates both the relentless changes in the economies of the West and the effects of the 90 percent reduction in federal harvest. The industry really started to change in the mid-1970s, resulting in the loss of forest products manufacturing and agency jobs. These changes have had a disproportionate impact on rural communities, especially those adjoining federal lands. Since the early 1990s, migration into many western areas has created economic growth and employment opportunities that partially offset lost manufacturing jobs. It has also changed community attitudes about forest management.

Summary

This section presents some suggested pathways for forest based economic development.

1) Consider the opportunity to improve the alliance among advocates for forests (both those who see them as a “commons” and those that see them as a source of goods and services). Include in this alliance the forest products industry. It is private capital that makes many opportunities. Include stakeholders in the alliance between forest owners and conservation advocates who share the desire to protect open spaces and associated goods and services from dwindling away as human populations increase.

2) Find ways to start a discussion about realistic timber revenue expectations. Sustained yield management, while a long-standing and admirable goal, does not yield steady revenues. As figures 1, 2 and Table 1 illustrate there is (in spite of increasingly sophisticated harvest scheduling models) no certainty with harvest levels.

3) Expand the discussion of economic development to include both risks and uncertainties. Forest management has, regrettably, two long and not helpful traditions. First there is a tendency to accept one set of risk expectations in one category of outcomes, while ignoring higher risks in other outcomes. Second, there is a persistent tendency to comingle risk assessment and management. Try to include some specific assessments about the risks and uncertainties involved in decision-making processes.

4) Advocate for increasing prices for Federal Timber being offered for sale. There are two specific actions. First, suggest greater consideration be given to improving the log grades of timber being offered for sale. As figure 2 suggests, federal sales tend to contain higher proportions of low-grade material, thus reducing stumpage prices and associated timber revenues. Second, consider the total cost of ownership for logging systems (the total cost of ownership includes other costs associated with production and sales over time, not just the purchase price). In competitive stumpage markets, any increases in the costs of production for federal timber reduces net turns to the treasury.

5) Advocate for more effective outreach to private timberland owners in the two counties. Harvest levels in the two counties are roughly at the sustained yield level, given current stocking (1,535 cubic feet per acre)[37]. There are opportunities to improve private land management practices (like stocking control, thinning, and pruning) that would increase current stocking. For example, if private lands were managed more like the State lands in the two counties, sustained yield could be increased by more than 50 percent.

Cannabis Industry Assessment

Oregon's cannabis industry is in transition. It has been moving, step-by-step, from being a pure black market to now a mix of legal and illegal activities. Legalizing recreational marijuana was the most recent and greatest step taken.

[37] Computed from Forest Service FIA data for each county and using Von Mantel's formula for computing allowable cut assuming a 40 year rotation length.

The first year its full effects will be felt is 2017. For that reason, we present our predictions for the cannabis industry in that year.

2017 Market Overview

In 2017, Oregonians will harvest the equivalent of 10.192 million ounces of dried marijuana. They will export more than half out of state—an activity that is illegal by federal law. Another 1.47 million ounces will go through illegal grey market channels unlicensed by the state.

Table 1: 2017 Oregon Cannabis Consumption and Production, Ounces[38]

Sources and Dispositions	Ounces
Recreational, residential retail purchases	980,000
Retail tourist purchases	450,000
Oregon grey market consumers	1,470,000
Home grown product	60,000
Medical, in-state consumer purchases	1,396,000
Consumption in Oregon	4,356,000
Plus exports from Oregon	5,510,000
Minus imports to Oregon	(280,000)
Inventory additions (removals)	300,000
Marketed in-state production	9,886,000
Post-harvest loss adjustment (3%)	306,000
Oregon harvested production	10,192,000

About 28 percent of Oregon's 2017 output will surface legally in stores or as homegrown production. The rest will remain effectively in black and grey markets.

In Oregon 4.356 million ounces will be consumed—450,000 by out-of-state visitors and over 3.9 million ounces by Oregonians. That is slightly more than 1¼-ounce per adult.

We believe edibles and extracts will account for a third of retail sales when measured in their equivalent dried plant material volumes. In dollar terms, edibles and extracts would be the majority of retail sales.

Intense competition is a certainty. Many in the industry are expanding output. Many others are just entering the industry with new businesses. Their expectations look back on history when sellers garnered wide margins and received high prices for marijuana.

[38] Ounces of dried flower buds, small leaves, and trim. Consumed as is or processed into a cannabis product.

High prices of the past reflected the legal risks and dangers of being in the industry. Legalization erodes those premiums.

Legalizing marijuana eliminates selling barriers that kept buyers and sellers apart beyond small, narrow circles of familiar connections. In the open market, which begins in mid-2016, any licensed supplier can compete openly with all others for customers they may never meet personally, but who weigh quality and price before buying. In these circumstances, prices decline.

For producers in 2017, legalization in full force has advantages. Cannabis product manufacturing will expand dramatically in Oregon. Legalization would improve capital and talent availability, make outdoor growing safer and far cheaper than before, permit branding, and open the way to innovations. All told, the industry will be larger and more productive—getting more ounces out into the market at lower costs.

One very important issue to keep in mind is that marijuana in 2017 will remain illegal in the eyes of the federal government. That benefits local consumers, but hurts the industry. Since Oregon licensed firms cannot sell out of state without going afoul with authorities, supplies will back-up in the state, driving down prices. Companies may accept that because they may hope federal legalization is coming that would allow sales across state lines.

That is a realistic hope, although the timing could be years away. Even if Oregon producers were restricted to selling to bordering states, that would prove a boom to local growers. By virtue of resource endowment, Josephine and Jackson counties have an ideal climate for highly competitive production. They stand to be the centers of the industry if federal barriers to cross-border sales end.

In 2017, having production increase and be limited, at least legally, to sales in state, prices will fall. ECONorthwest believes the retail price of cannabis flowers will average $140 an ounce. The farm gate price will settle at about $32 an ounce. There will be a good market for trim at $12 an ounce. Trim consists of small leaves and other plant parts suitable for cannabis oil extraction. Processors make it into smoking and edible products.

Trends and Changes

ECONorthwest expects several changes and trends in the local cannabis industry that could affect Grants Pass. For example:

- Josephine County has at least 2,363 growers. Jackson has 3,506.
- Barring widespread crop failure, expect an oversupply of recreational and medical cannabis in Oregon. Too many people are getting into the business. The marginal cost of expanding output for most growers is modest. State and federal laws prohibit sales across state lines.

- The wide margins supported by prohibitionary laws will narrow. Prices will fall and cannabis businesses will fail.
- One bright spot is the market for edible products. The competition is less. Tourists, due to anti-smoking legislation and the policies of lodging and car rental companies, are a ready-made market, as well as being less price sensitive than Oregonians.
- Edible products have high producer mark-ups. Based on current prices at stores in Washington, an edible sold at retail for $5 has 10 *mgs* (milligrams) of the active ingredient THC. A one-gram flower sells for $10, but contains 200 mgs. Marijuana is less than one-tenth the cost of the edible.[39]
- You can create a defensible brand in edibles more easily than for flowers.
- The agricultural research evidence is sparse on marijuana. But we do know that hops farm production and crop processing is considerably more efficient at large scale—or as economists call it—economies of scale. Hops and marijuana are in the same plant family (*Cannabaceae*).
- Oregon Liquor Control Commission (OLCC) prohibits large farms. That regulation will change as the situation warrants.
- Because of its historic legal status, the supply chain consists mostly of low volume producers. Post legalization, larger volume operators will emerge and some will prosper. Many small businesses will fail.
- Except for some specialized products, we expect most indoor growing operations will fail. The costs of indoor growing are too high and consumers, in most segments, too price sensitive.
- Production will migrate south from the Portland and Willamette Valley areas to Josephine, Jackson, and Douglas counties where growing conditions are considerably better.
- Land availability is not an issue. Oregon farmers could grow all the cannabis needed in the state on 500 acres. Land would only become a problem if marijuana were federally legalized and markets open up in large population states.
- It is highly seasonal. Outdoor crops mature in September, spurring great demand for workers.
- Wholesale prices peak in August and bottom in October.
- Cannabis oil has a long shelf life. Dried cannabis flowers store well from six months to as along as two years.

[39] It is less than one-tenth because the cannabis oil made from marijuana comes from the marijuana plant parts that are less valuable than flowers.

- Some local growers have over twenty years of experience and developed cultivars that are recognized by consumers around the world.
- ECONorthwest believes industrial hemp is a niche crop whose supporters overstate its prospects. It is an unlikely industry for Grants Pass for two reasons. First, industrial hemp pollen interferes with cannabis yields. Secondly, industrial hemp is dioecious. Thus, as an oil seed, it is less competitive since only every other plant has female flowers and produces seed. In contrast, common oil seed crops (cotton, corn, soy, sunflower, canola, safflower) are hermaphroditic.

Josephine County Market

The marijuana industry in Josephine County in 2017 is difficult to estimate. The values expressed here are subject to large changes. ECONorthwest may conduct an economic impact analysis in 2016, which would give us access to data and permit a more accurate forecast. In the absence of that, we offer the following dimensions of the cannabis market for Josephine County in 2017.

Local farms will harvest about 3.2 million ounces of marketable, dried product. That will make Josephine County the second largest producer in Oregon. More than 90 percent of that will be grown outdoors.

At the farm gate price of $31.25, county production would be worth $100 million. However, growers that sell out of state can garner higher prices. Conceivably, farm output could worth $200 million.

We estimate 800 to 1,000 full-year equivalent jobs from farm production and processing in 2017. Most workers will be seasonal. Total wages would be $25 to $30 million. Farm proprietor income would be $10.2 million.

The retail value (of flowers) would be about three times the farm gate price. Most of those sales will be in the Willamette Valley and up into the Portland metropolitan area.

While an ideal location for growing, legalization should stimulate wholesale and processing businesses. The OLCC specifically licenses these and they allow growers to get them, thus, combining growing with processing and wholesaling in one business. Of the two, processing has the highest value added and greater economic stimulus potential.

Josephine County Support

Based on our knowledge of industrial economics, our research on the marijuana industry, and discussions with various experts, we recommend support of processing cannabis into branded consumer products. In this case, economies of scale are critical. Effectively, it is food manufacturing with all the health, safety, and packaging concerns.

For example, you could establish a secure manufacturing area with modern food production equipment and a testing lab (contrary to claims, use of miticides and other chemicals is prevalent in cannabis farming, so strict testing is critical). The goal is to create a highly efficient, mechanized production line that would let the County capture a dominant market share statewide. In 2017, the edibles market alone will be about $100 million at the producer level. If and when cross-border sales become legal, the facility, or group of facilities sharing an industrial park, would stand to grow.

This strategy takes advantage of a legal circumstance in the market. Securing financing for an at-scale factory making products that are legal in Oregon but illegal at the federal level is very difficult for private investors. As such, edibles are processed on a small scale, nearly kitchen scale, in Oregon, Washington, and Colorado. Cross-border sales are prohibited. Yet the market in Oregon alone will be $100 million and high margin.

If a government entity can establish a facility, rent it, and capture even half the statewide market, it would see about 150 new full time jobs in processing. Furthermore, growers in Jackson County, likely to be the largest producer statewide, will sell cannabis oil for use in making edibles in Grants Pass.

Similarly, there are a variety of products that vaporize cannabis oil. While the cannabis oil itself is inexpensive, the margins on these products are substantial. So additional manufacturing opportunities exist. Having a secure, clean industrial space with great access to I-5, clean water, and affordable electric power that is also wanting cannabis businesses could prove to be a smart strategy.

Appendix D: Committee Ground Rules

This brief appendix provides some ground rules for the Committee. BDS Planning & Urban Design produced these ground rules.

Guiding Principles

- Equitable distribution of resources and opportunity
- Respect
- Transparency
- Accountability
- Champions
- Priorities
- Action & Change

Ground Rules for Meetings and Discussions

- Everyone's voice counts
  - Take turns
  - Each perspective is valid
  - Listen respectfully
  - Questions are okay
- Forward movement
- Positive recommendations

Responsibilities

- Participate (no alternatives if attendance not possible)
- Positive
- Perspective
- Acknowledge conflicts of interest
- Knowledge
- Share information

Working Consensus

- Everyone gets a say
- Recommendations you can "live with"
- If we must vote: 80% = consensus (in attendance)